Manitoba

Annual Report 1989

The Public Utilities Board

91-02164/

To the Honourable Ed Connery,
Minister of Cooperative, Consumer &
Corporate Affairs,
343 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Sir:

Section 109(1) of The Public Utilities Board Act directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December of the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act directs that the Report of the Board thus transmitted to the Minister

> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to submit to you as Minister under the Act, the Thirtieth Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1989. This Annual Report is submitted to you on behalf of my colleagues who comprise the Board for the period covered by this Report.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully submitted, this 28th day of February, 1989.

Sincerely,

Edward J. Robertson,
Chairman.

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities tc the Board are:

The Crown Corporations Public Review and Accountability and Consequential Amendments Act (proclaimed on January 17, 1989)
The Greater Winnipeg Gas Distribution Act
The Gas Pipe Line Act
The Gas Storage and Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The Municipal Act (Local Utilities)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)
The Manitoba Telephone Act
The Manitoba Hydro Act (Appeals, Reference)

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

BOARD PERSONNEL

Over the period covered by this Report the membership of the Board was as follows:

Chairman	Mr. E. J. Robertson
Vice-Chairman	Mr. O. Tonn (to August 2, 1989)
Vice-Chairman	Ms. L. Gosselin (from December 21, 1988 as a Member and from October 11, 1989 as Vice-Chairman)
Member	Mr. R. Schilling (to June 7, 1989)
Member	Ms. S. Proven (to August 2, 1989)
Member	Ms. R. McNeill (to August 2, 1989)
Member	Mr. J. Taylor (to June 7, 1989)
Member	Ms. E. Janzen (from December 21, 1988)
Member	Mr. M. Anseeuw (from December 21, 1988)
Member	Mr. W. Pearson, Q. C. (from June 7, 1989)
Member	Mr. T. Anderson, Q. C. (from June 7, 1989)
Member	Ms. C. Milner (from June 7, 1989)

Member	Ms. D. Barrett-Hrominchuk (from August 2, 1989)
Member	Ms. S. Lount (from August 2, 1989)
Member	Mr. W. T. Laird (from August 2, 1989)
Member	Mr. H. Enns (from August 2, 1989)
Member	Mr. J. Berry (from August 2, 1989)
Member	Mr. T. D. Bulloch (from August 2, 1989)
Executive Director	Mr. G. O. Barron
Associate Secretary	Mr. D. C. deGraff
Research Economist	Mr. B. Ball

Mr. Oscar Tonn passed away in November, 1989. He had been a Board Member since 1972 and had served both as Vice-Chairman and Acting Chairman. Oscar Tonn's admirable record of public service on this Board will long be remembered by those who worked with him. The Board expresses its deepest sympathy to Mrs. Helen Tonn and family in their great loss.

During the course of the year Board Members served on two panels. Panel A (presently, Ms. L. Gosselin, Vice-Chairman, Ms. E. Janzen, Mr. M. Anseeuw, Mr. H. Enns, Mr. T. Anderson, Q. C. and Ms. Lount) is responsible for the regulation of The Manitoba Telephone System and Manitoba Public Insurance Corporation as applicable as well as the administration of The Prearranged Funeral Services Act and The Cemeteries Act and the hearing of appeals of Highway Traffic Board decisions.

Panel B (presently, Mr. W. T. Laird, Mr. T. D. Bulloch, Mr. W. Pearson, Q. C., Mr. J. Berry, Ms. D. Barrett-Hrominchuk and Ms. C. Milner) is responsible for the regulation of Manitoba Hydro, ICG Utilities (Manitoba) Ltd. and Stittco Utilities (Man.) Ltd. as applicable as well as safety matters as they relate to The Gas Pipe Line Act and the M.H.R.C. owned propane distribution system, the regulation of transit utilities and water and sewer utilities as applicable.

Professional, technical and expert assistance is regularly available to the Board, as authorized by statute and/or by Order-in-Council in respect of the appropriate statutory provisions in The Public Utilities Board Act. Such legal, engineering, accounting and other professional or technical staff support providing service to the Board is exclusively and wholly by statute under Board direction in respect of that service. These Advisors, who are employed on an "as needed" basis are paid fees set by Order-in-Council on an "as utilized" basis, plus expenses, with such disbursements being recoverable to a large extent from the utilities regulated. The Board is empowered by The Public Utilities Board Act to secure such other assistance as it deems appropriate in the process of adjudication, with the related disbursements, if any, being charged directly to the parties as the Board may determine.

BOARD MEETINGS AND HEARINGS

A total of 123 Board Meetings and public hearings were held in 1989:

Board Meetings	53
Public Hearing Days	61
Pre-Hearing Conference Days	9

ORDERS ISSUED

During the year ending December 31, 1989, 200 Orders were issued, as follows:

Regulated Industry Orders:

Public Utilities Board Act	2
Water and Sewer Utilities	98
Natural Gas and Propane Utilities	26
Manitoba Telephone System	58
Manitoba Hydro	7
Transit	1
Manitoba Public Insurance Corporation	5

Highways Protection Act Orders:

Appeals	2

Miscellaneous:

The Gas Pipe Line Act	1

NOTE: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's offices upon request.

NATURAL GAS DISTRIBUTION UTILITIES

GENERAL

The Board in 1989 dealt with Greater Winnipeg Gas Company (GWG) and ICG Utilities (Manitoba) Ltd. (ICG) applications relating to the following common issues:

1. Long-term natural gas contracts;

2. Base pressure adjustment and metrication;

3. Peaking supplies, TransCanada PipeLines Limited transportation tolls and deferral accounts;

4. Merger of Greater Winnipeg Gas Company and ICG Utilities (Manitoba) Ltd.;

5. Sale of the ICG Utilities (Manitoba) Ltd. shares indirectly to Westcoast Energy Inc.

The Rate Base, Rate of Return and Rates Applications dealing with GWG and ICG have been dealt with under each Company's heading.

1. LONG-TERM NATURAL GAS CONTRACTS

In its 1988 Annual Report the Board outlined the applications by GWG and ICG jointly, "the Companies", for approval

of rates for the sale of natural gas from November 1, 1988 to October 31, 1990, flowing from the Companies' new gas supply contracts with Western Gas Marketing Limited.

Following public hearings in Winnipeg commencing January 23, 1989 the Board issued Order No. 73/89 dated April 19, 1989. A summary of the Board's findings is noted hereunder:

- A firm long-term supply of gas is provided for a 15-year period.

- The new commodity price negotiated by the parties is $2.20 per gigajoule. The existing commodity price was $2.21 per gigajoule.

- The price is fixed for the first 2 years; for the next three years prices may be established with reference to the weighted average cost of gas of the Ontario distributors' firm long-term supply. Beyond that period prices are to be further negotiated or arbitrated.

- The Board's jurisdiction extends to the approving or otherwise of retail rates put forth by the Companies. As the Board has no statutory obligation to find on the prudency of the contracts, it did not do so.

- The Board determined that the applied for rates, subject to certain adjustments for timing, are just and reasonable. In so doing the Board indicated that the linkage of Manitoba's price of gas to that of Ontario's is of great importance considering the differences in market conditions in each Province.

- The constraints on the industry and more specifically, the lack of pipeline capacity within Alberta and Alberta's gas removal permit policies, prevent a truly competitive market price from being determined.

- The Board recognized that the gas sales arrangements signal the beginning of a new industry strategy by Western Gas Marketing Limited and the Alberta Government which will have the effect of placing Manitoba's natural gas supply (and the Ontario and Quebec natural gas supply as well) squarely within a continental market which will mean competing with the U.S. for Canadian supplies of natural gas.

- The Board emphasized that it will assess the reasonableness of future rates beyond the initial 2-year period on the merits of the Companies' future applications. Any future financial risk associated with these contracts must be borne by the Companies and more specifically by the Companies' shareholders.

2. BASE PRESSURE ADJUSTMENT AND METRICATION

In 1986, the Federal Government amended the Electricity and Gas Inspection Act and Regulations, which amendment required that all natural gas purchased and sold on a volumetric basis be measured at a standard pressure base of 14.73 psi, atmospheric, plus or minus 0.09025 psia within a given declared base pressure range.

Because the existing system of measurement in Manitoba was to measure at actual atmospheric pressure plus 0.25 psia, and because atmospheric pressure varies with altitude, various declared base pressure areas are required.

Within the GWG franchise area all consumers are within one declared pressure base area. The result of the required pressure adjustment is that each customer is billed for a slightly reduced volume of gas at a slightly increased rate which reflects the higher calorific value of that volume. The customer's overall heating costs should be unaffected by the change.

In the ICG franchise area due to the elevation differences in the three declared areas, three separate pressure adjustments are required. In keeping with the Company's policy of equal rates for equal service, the Company established one new rate which accommodated the amended gas volumes. Within the ICG system, the various areas experienced changes in their annual heating bills which varied from minus 1.64% to plus 0.8%.

Coincident with these adjustments GWG and ICG applied to the Board to have all billings converted to the Metric System.

In Order No. 155/89 dated October 2, 1989 the Board approved revised rates effective November 1, 1989 which included the standard pressure base adjustment and the metric conversion.

3. PEAKING SUPPLIES, TCPL TRANSPORTATION TOLLS AND DEFERRAL ACCOUNTS

On October 2, 1989 GWG and ICG jointly applied to the Board for an Interim Ex Parte Order approving:

(a) Interim and annual rates for peaking gas supply for the Companies' 1989/90 peaking requirements. In previous years the Companies were able to utilize temporary space capacity on the TCPL system, but increased demand in export and domestic markets and access to the TCPL system

by direct purchase market shippers forced the Companies to arrange tenders for a one-year firm service transportation contract with TransCanada PipeLines Limited. In addition the Companies arranged for firm winter peaking service with ProGas Limited with no take-or-pay stipulations.

(b) Interim rates to cover changes in TCPL tolls for contract demand service for the period July 1 to October 31, 1989 and changes in compressor fuel ratios from January 1 to September 30, 1989 as approved by the National Energy Board.

(c) The implementation of deferral accounts for:
1. monthly variance in the TCPL fuel ratio;
2. ProGas Limited peaking supply;
3. monthly variance in the $100,000 Valley Transportation Credit (VTC).

The Companies testified that the difference between forecast and actual monthly charges for fuel ratio, variance in the monthly VTC and the use of the ProGas supply can have a significant impact on the Companies' revenues. The establishment of these deferral accounts would eliminate the need for the Companies to apply for rate changes to deal with significant fluctuations. The Companies proposed that any such differences, including applicable account interest charges be dealt with in a future pass-through or general rate application. The balance in the account would be dealt with, based on the normalized purchase volumes for an applicable period, as approved by the Board.

The Board approved the rate schedules, and deferred its decision on the deferral accounts in Interim Ex Parte Order No. 174/89 dated October 27, 1989.

4. MERGER OF GWG AND ICG

On October 16, 1989 the Board heard the applications of GWG and ICG pursuant to paragraph 82(1)(h) of The Public Utilities Board Act for an Order:

(a) approving the dissolution of ICG and the conveyance by ICG upon dissolution of all of its assets to GWG; and

(b) approving the consequent merger and consideration of the property, franchises, privileges and rights of ICG and GWG.

The Companies proposed that the dissolution, conveyance and merger and consideration referred to would be accomplished in the following manner:

(a) GWG will be continued as a corporation under The Corporations Act (Manitoba), pursuant to sub-section 181(2) of that Act;

(b) GWG will acquire the shares of ICG thereby making ICG a wholly-owned subsidiary of GWG;

(c) effective January 1, 1990, ICG will be dissolved pursuant to the provisions of The Corporations Act, and upon dissolution its assets will be conveyed to GWG; and

(d) effective January 1, 1990, GWG's name will be changed to ICG Utilities (Manitoba) Ltd.

Company witnesses testified that the merged utility would maintain the present four distinct rate divisions and that rates would not change in conjunction with this application.

Because GWG and ICG had for some years now been operating as if they were one company, utilizing the same corporate executives and much of the same staff and facilities, most cost savings resulting from the merger had already been realized. Additional savings would occur as a result of only one regulatory filing requirement instead of two, singular filings of income tax, audit expenses and legal and financial costs.

In Order No. 182/89 dated November 16, 1989 the Board approved the application, to be effective January 1, 1990.

5. SALE OF ICG SHARES, INDIRECTLY, TO WESTCOAST

On December 8, 1988 Central Capital Corporation, holding a 46% interest in Inter-City Gas Corporation (Inter-City), announced publicly that it wished to dispose of its investment in Inter-City. While the intended sale attracted other prospective buyers, the Westcoast Energy Inc. (Westcoast) offer was accepted by Inter-City.

By letter of understanding dated July 4, 1989 Westcoast agreed to purchase Inter-City's propane and utility division. This letter of understanding contemplated and was conditional upon the happening of a number of events. These events involved a series of approvals including the approval of requisite regulatory bodies (namely British Columbia, Alberta, Manitoba and Ontario) having responsibility for setting rates for the constituent parts of the Utility Division of Inter-City.

An arrangement Agreement was entered into on December 11, 1989 and it is expected a definitive agreement will be executed in the Spring of 1990.

In consequence of the regulatory approval process referred to above, in a notice dated December 7, 1989, the Board indicated that it would conduct an inquiry pursuant to The Public Utilities Board Act, into the acquisition, indirectly, of the shares of ICG by Westcoast. By that notice, ICG and Westcoast were each to make a submission to the Board pertaining to matters set out in the scope of the hearing provided by the Board.

A public hearing was to be held in Winnipeg on Wednesday, January 10, 1990.

GREATER WINNIPEG GAS COMPANY

On March 3, 1989 the Greater Winnipeg Gas Company applied to the Board for an Order determining Rate Base, Rate of Return and Rates based on a 1988 historical test year. The last application had been in 1987 on a 1986 test year.

GWG sought approval of:

- A 1988 mid-year Rate Base of $144,568,821, an increase of $22,046,821 from the then allowed Rate Base of $122,522,000.

- An overall rate of return of 12.56%, including a return on equity of 14.5%. The then allowed overall Rate of Return was 12.35%, including an allowed return on equity of 13.25%.

- A revenue requirement of $196,377,925. Existing rates would, on a normalized basis, generate revenue of $189,819,116 resulting in a revenue deficiency of $6,558,809. The overall increase in revenue requirement would be approximately 3.5%.

- Rates resulting from a fully allocated cost of service study, based on a new methodology.

- Rate restructuring consisting of:

- Creation of Small General Service (SMS) and Large General Service (LGS) classes, with Transportation Service rate counterparts.

- Replacing of a two step rate by a single commodity rate for each block within the various firm classes.

- Increased fixed monthly charges of $7.50 for SGS and $30.00 for LGS and their counterpart firm transportation service classes.

- Introduced four annual volume based classes for the interruptible customer class.

- Rate increases to be effective from January 1, 1990.

- Collection of a 1 cent per Mcf levy from its customers, on all volumes delivered, to be forwarded to the Canadian Gas Association to fund research and development. The proposal was to initially recover 0.2 cents per Mcf, effective September 1, 1989, increasing by 0.2 cents per Mcf per year thereafter up to the 1 cent per Mcf.

- Increase in the late payment charge to 1.5% and a change in effective date for applying interest.

The Company also asked the Board to formally recommend to the Government that legislative authority be granted to the Company authorizing the lock-off of gas service for non-payment of accounts in accordance with the Company's proposed lock-off policy. In support of its application the Company documented the continuing

increase in arrear accounts, and its impact on each paying customer of approximately $50.00 per year.

After considering all the evidence the Board in Order No. 141/89 dated August 8, 1989 and subsequently in Order No. 146/89 dated August 29, 1989 approved an increase in rates, effective September 1, 1989 which had the effect of increasing the average annual residential bill by approximately $32.00 and the annual commercial bill by approximately $85.00.

In so doing the Board reduced the Company's requested mid-year base to $142,874,756 as a result of disallowing the Company's Customer Service System on the basis that it did not provide any benefits to the customer as of December 31, 1988.

The Board allowed a return on common equity of 13.0% not the 14.5% requested which resulted in a lowering of the overall rate of return to 11.97% from 12.35%.

As a consequence of the above adjustments the adjusted revenue requirement amounted to $194,458,405, a reduction of $1,919,520.

The Board accepted the new Cost of Service Study methodology filed by GWG but required the Company, at the next hearing, to submit cost, benefits, and an implementation schedule for the conduct of load research to verify the load requirements of each customer class. The Board noted that the rates flowing from the Cost of Service Study placed all customer classes within the revenue to cost ratio of .95 to 1.05.

The Board denied the Company's request for retroactive rates to January 1, 1989 but did advise that it would entertain applications by the Company for implementation of refundable

interim rates prior to the filing of an historic test year rate application.

While the Board agreed with GWG that research and development is desirable, the application for approval of a research and development levy was denied, as such expense had not yet been incurred by the Company. Before such costs were to be allowed, the Company must first satisfy the Board that the money had been spent prudently and had resulted in benefits to the customers.

The Board approved an increase in the Company's late payment charge to 1.5%, as well as changes in the timing of the application of the late payment charge.

The Board supported the Company's request to Government for the authority to lock-off delinquent accounts, on the clear understanding that the lock-off policy of the Company be at all times subject to the Board's approval.

On October 16, 1989 the Board issued Order No. 167/89 which authorized Greater Winnipeg Gas Company to enter into a loan agreement with the Canadian Imperial Bank of Commerce to establish a revolving credit facility not to exceed $50,000,000.

On December 15, 1989 the Board issued Order No. 193/89 which authorized the issuance of common shares with a fair market value of $14,500,000 by Greater Winnipeg Gas Company to ICG Utilities (Canada) Ltd.

The Board issued Orders in 1989 approving Direct Purchase Arrangements between those customers leaving the supply of GWG and their own specific supplier.

On October 27, 1989 the Companies applied for an Order to:

a) confirm Board Order 174/89 dealing with peaking supplies etc. and referred to under the heading "Natural Gas Distribution Utilities";

b) to approve Interim Refundable Rates effective January 1, 1990; and

c) to approve the establishment of deferral accounts all to be effective January 1, 1990.

Following Public hearings in Winnipeg commencing December 15, 1989 the Board issued Order No. 1/90 dated January 2, 1990 wherein interim rates flowing from Interim Ex Parte Order No. 174/89 were confirmed. The Board approved the establishment of deferral accounts for variances in fuel ratio and propane peaking supply, the operation of which is to be dealt with at future hearings. The Board disallowed the establishment of a deferral account dealing with the $100,000 Valley Transportation Credit pending further consideration. These matters were discussed under the heading "Natural Gas Distribution Utilities".

With respect to the Companies' interim refundable rate application (which was filed on a joint basis with ICG) the Companies' witnesses testified that this application was necessary because of increases in rate base, operating and maintenance expenses and other costs associated with operations. As a consequence, revenues generated by existing rates were inadequate to maintain the Companies' financial position and, without rate relief the Companies foresee a $7.4M revenue deficiency for the

1990 fiscal year. Because of their financial position the Companies questioned whether they would be able to raise the necessary capital to meet a very extensive and necessary construction program in 1990.

The application was based on a 1989 historic test year, consisting of 9 months actual (unaudited) and 3 months forecast data. The Companies sought approval for interim refundable rates based on the following:

- A 1989 mid-year Rate Base of $202,597,320, an increase of $25,821,557 from the presently allowed combined Rate Base of $176,775,764.

- An overall rate of return of 12.34%, including a return on equity of 13.0%. The percent combined allowed overall rate of return was 12.01%, including an allowed return on equity of 13.0%.

- A revenue requirement of $268,013,535. Existing rates would, on a normalized basis, generate a revenue of $260,607,547, resulting in a revenue deficiency of $7,405,988. The overall increase in revenue requirement would be approximately 2.9%.

- Rates based on the 1988 cost allocation study updated for rate base and revenue requirements as well as number of customers, gas volumes purchased and sold, and all elements of cost of gas purchased.

- Equalization of the Small General Service Fixed Monthly Charge of $7.50 and the Commodity Charge across all four rate divisions.

The Companies, in filing this interim application, undertook to file, as soon as they were in a position to do so a complete Rate Base, Rate of Return application. The Companies indicated this application will include an increased rate of return, an increase in depreciation rates and confirmation of this interim refundable rate Order.

In Orders No. 2/90 and 3/90 dated January 3, 1990 and January 5, 1990 respectively the Board deemed that a mid-year rate base of $200,462,518 was appropriate for rate setting purposes, and approved a revenue requirement of $267,955,756. The Board approved the Companies' rate design which provided for the elimination of the disparity of commodity rates between rate divisions, but did not approve the request to standardize fixed monthly charges.

As a result of the various amendments the impact on residential and commercial customers' annual bills was:

Residential	Amount	Percent
Brandon Division	$28	4.44
Southeast Division	28	4.32
ICGUL Division	28	4.12
GWG Division	25	3.52
Commercial		
ICG Manitoba	$110	2.73
GWG	71	1.73

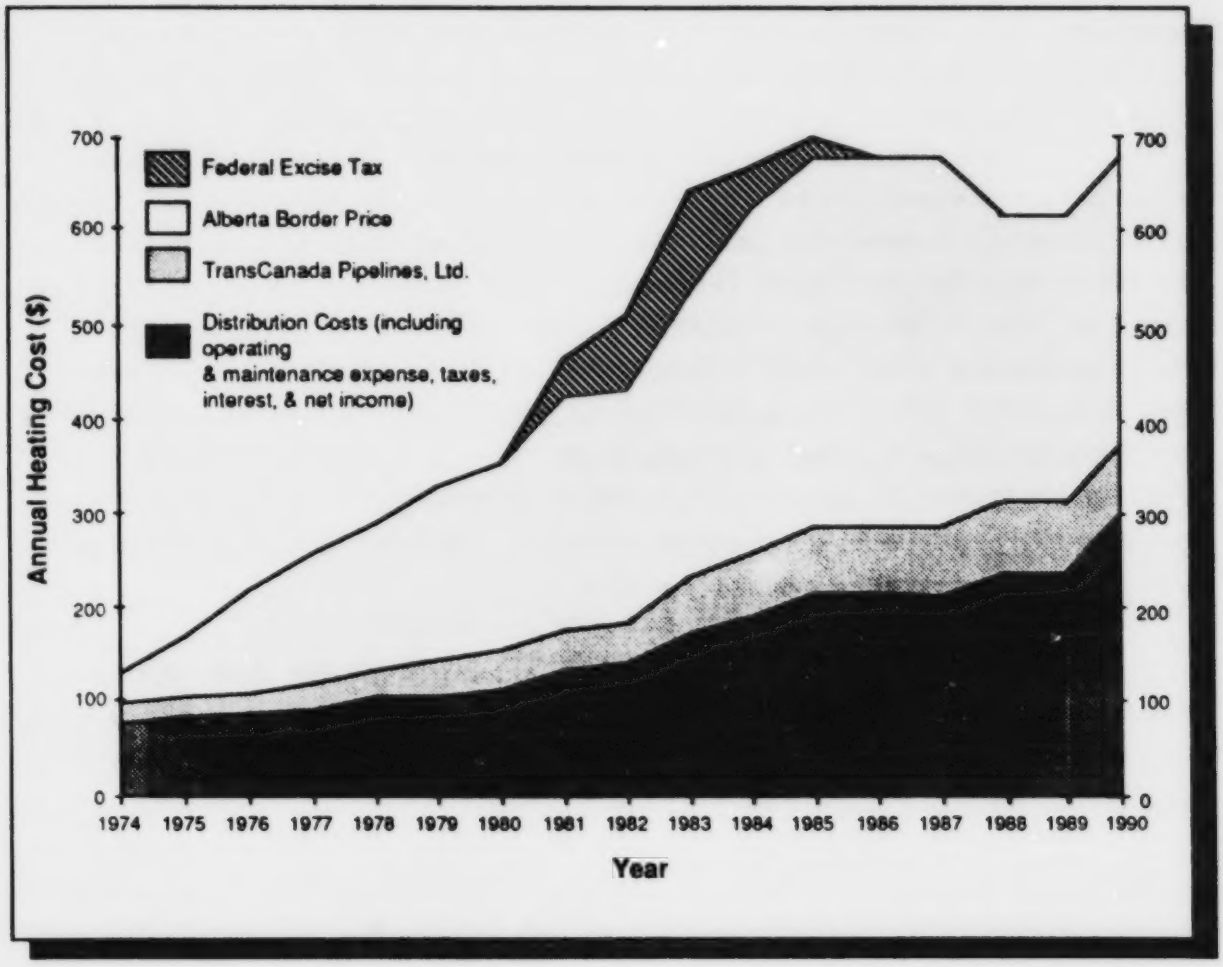
It should be noted that the Companies, in making this application, were required to make a "prima facia" case for higher rates effective January 1, 1990. It was clear from the Board's Notice of Public Hearing that the Board's final decision on the

application would be dealt with at a later date. Consequently, all interested parties were apprised that there was not to be a full examination. However, justification of the rate increase would still be required for examination.

The Board commented on the frequency of applications and frustration experienced by ratepayers as a result of the multiplicity of rate changes. The Board noted that the concept of interim refundable rates introduces the need for an additional hearing and, perhaps, further rate adjustments once full examination is completed. Accordingly, the Board requested that the Companies file, amongst other things, information based on a future test year at the next hearing. At that hearing, the Board will use this filed material to investigate whether a variation in the regulatory process would enable that process to be simplified and be more equitable to all parties.

Details of the historical annual heating cost for an average residential customer, historical rates of return earned by the Company and the distribution utility's revenue are shown on the following Figures 1, 2 and 3 respectively.

FIGURE 1

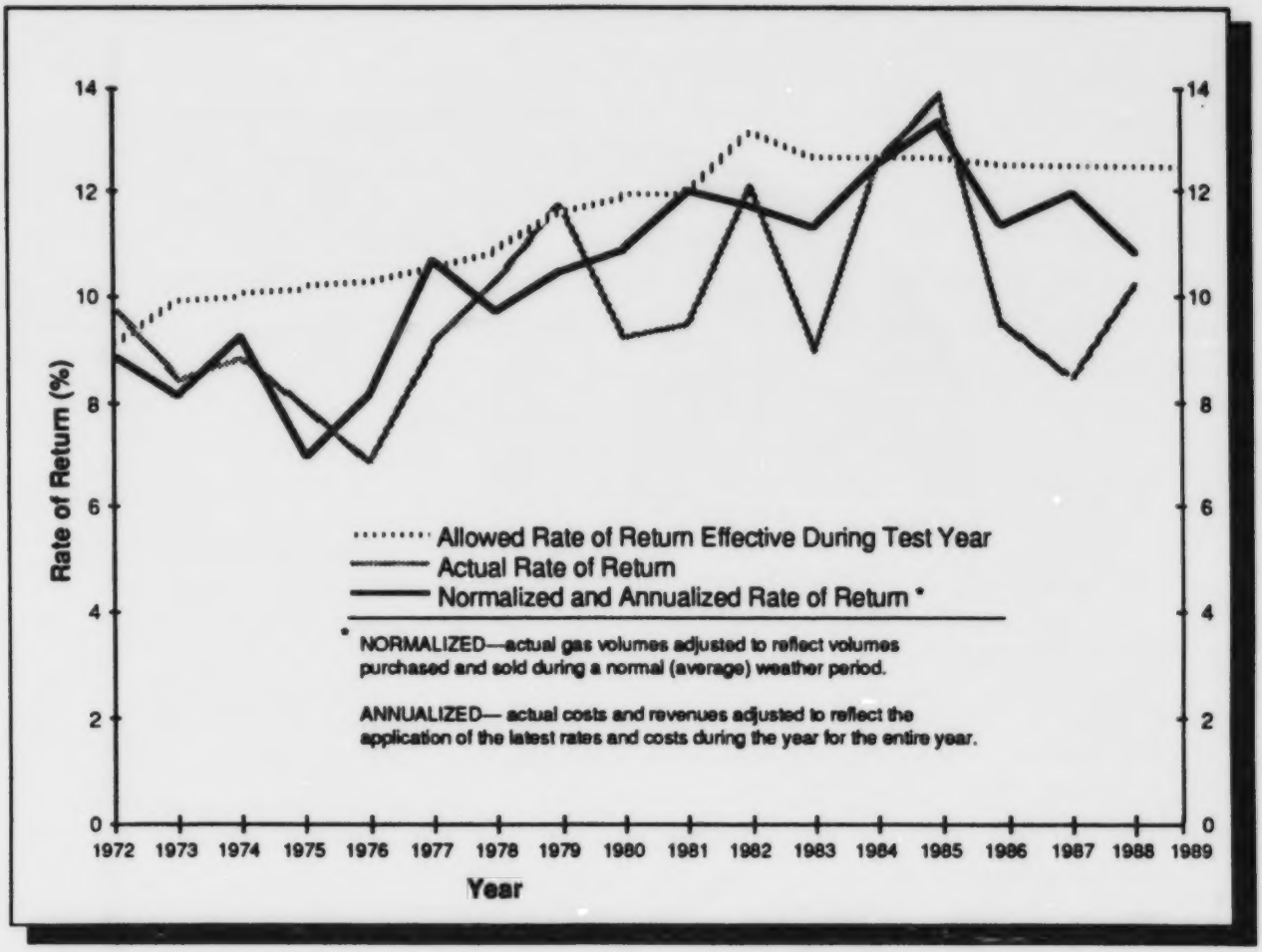


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities—Greater Winnipeg Gas Company

Based on usage of 130 Mcf/year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 142 Mcf/year in 1975. At January 1, 1990 rates, 142 Mcf would cost $759

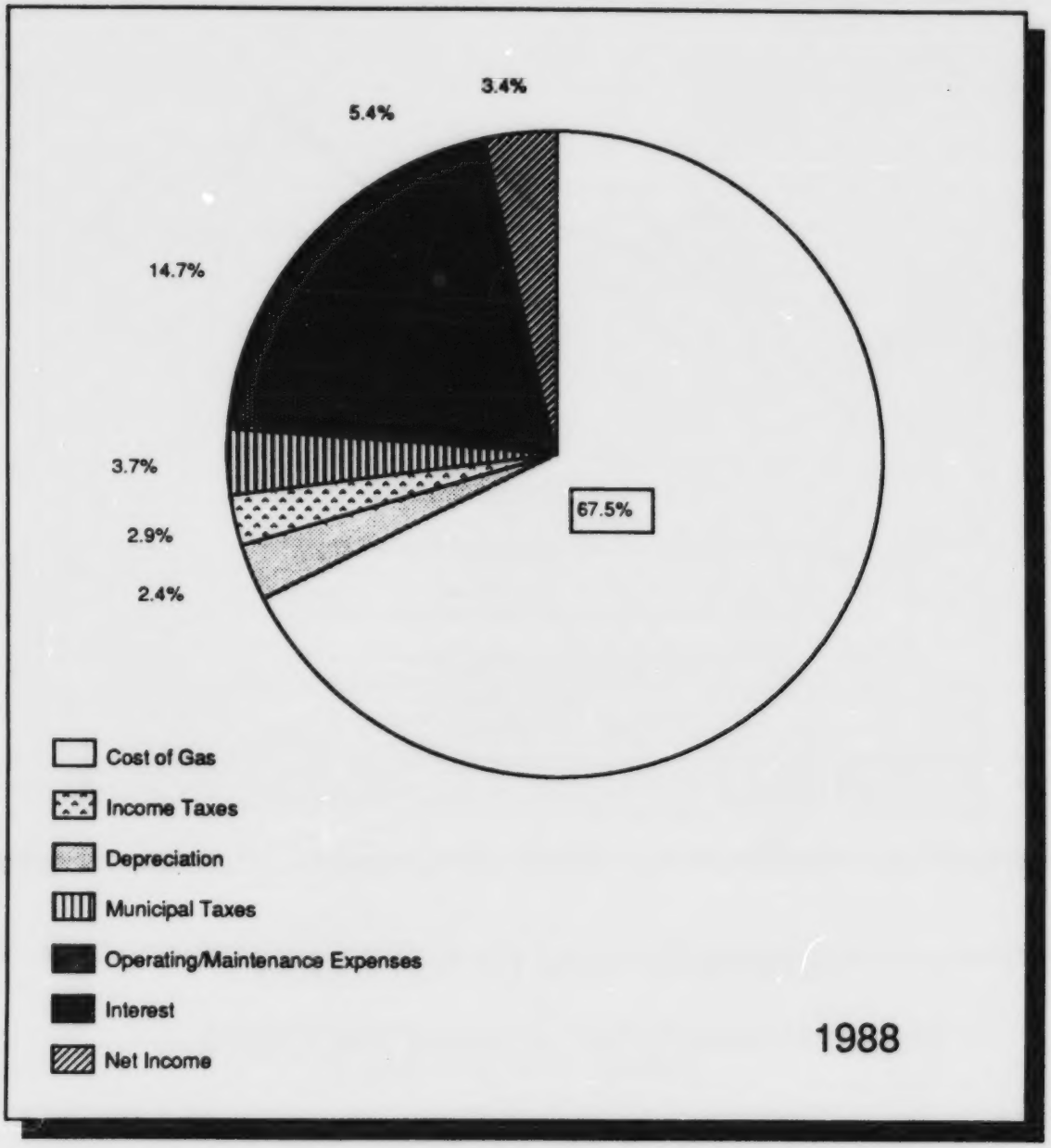
FIGURE 2


Rate of Return (%)
14
12
10
8
6
4
2
0
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989
Year
Allowed Rate of Return Effective During Test Year
Actual Rate of Return
Normalized and Annualized Rate of Return *
* NORMALIZED—actual gas volumes adjusted to reflect volumes purchased and sold during a normal (average) weather period.
ANNUALIZED— actual costs and revenues adjusted to reflect the application of the latest rates and costs during the year for the entire year.

RATE OF RETURN ON RATE BASE
for
ICG Utilities—Greater Winnipeg Gas Company

NOTE: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment

FIGURE 3



DISTRIBUTION OF GAS UTILITY REVENUE
ICG Utilities—Greater Winnipeg Gas Company

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

ICG UTILITIES (MANITOBA) LTD.

On March 3, 1989 ICG applied to the Board for an order determining Rate Base, Rate of Return and Rates based on a 1988 historic year. The last application had been in 1986 on a 1985 test year.

ICG sought approval of:

- A 1988 mid-year Rate Base of $32,296,975, an increase of $11,805,898 from the then allowed Rate Base of $20,491,077.

- An overall rate of return of 12.74%, including a return of equity of 14.5%. The then allowed overall Rate of Return was 13.42%, including an allowed return on equity of 13.75%.

- A revenue requirement of $58,294,811. Existing rates would, on a normalized basis, generate a revenue of $57,626,517 resulting in a revenue deficiency of $668,294. The overall increase in revenue requirements would be approximately 1%.
- Rates resulting from a fully allocated cost of service study, based on a new methodology.
- Rate restructuring consisting of:

    - Single Firm Transportation Service rate, except for Simplot.

- Elimination of an Interruptible Transportation Service Rate.

- Inclusion of Special Contract Customers in the Firm Large General Service Class or Interruptible Service Class, except for Simplot which remains as a Special Contract for the firm portion of its load.

- Redefinition of Simplot's Firm Service rate into dollars per Mcf from dollars per Million British Thermal Units.

- Restructuring of the Firm Service rate into a Small General Service Rate Class and a Large General Service Rate Class.

- Special Rate for CSP Foods Harrowby under the Large General Service Rate Class because of special circumstances related to installation of facilities to serve that customer.

- Rate increases to be effective from January 1, 1989.

- Collection of a 1 cent per Mcf levy from its customers on all volumes delivered to be forwarded to the Canadian Gas Association to fund research and development. The proposal was to initially recover 0.2 cents per Mcf, effective September 1, 1989, increasing by 0.2 cents per Mcf per year thereafter up to the 1 cent per Mcf.

The Company also asked the Board to formally recommend to the Government that legislative authority be granted to the Company authorizing the lock-off of gas service for non-payment of accounts, in accordance with the Company's proposed lock-off policy. In support of its application the company documented the continuing increase in arrear accounts, and the impact on each paying customer of approximately $50.00 per year.

After considering all the evidence the Board in Order No. 142/89 dated August 8, 1989 and subsequently in Order No. 147/89 dated August 29, 1989 approved an increase in rates, effective September 1, 1989 which had the effect of increasing consumers' average annual bills as noted below:

	Residential	Commercial
Brandon Division	$56	$78
Southeast Division	$56	$69
ICGUL Division	$41	$20

The Board allowed a mid-year rate base of $32,283,876, and a return on common equity of 13.0% which resulted in an overall rate of return of 12.15%.

The Board approved a total revenue requirement of $57,945,458, a reduction of $349,353 due to the Board's adjustment to return on equity.

The Board accepted the new Cost of Service Study methodology filed by ICG but required the Company, at the next hearing, to submit costs, benefits, and an implementation schedule for the conduct of load research to verify the local requirements of each customer class. The Board notes that the rates flowing from the Cost of Service Study place all customer classes within the revenue to cost ratio of 0.95 to 1.05.

The Board denied the Company's request for retroactive rates to January 1, 1989 but did advise that it would entertain applications by the Company for implementation of refundable interim rates prior to the filing of an historic test year rate application.

While the Board agreed with ICG that research and development is desirable, the application for approval of a research and development levy was denied, because such expense had not yet been incurred by the Company. Before such costs were to be allowed the Company must first satisfy the Board that the money had been spent prudently and had resulted in benefits to the customers.

The Board approved an increase in ICG's late payment charge to 1.5%.

The Board supported the Company's request to Government for the authority to lock-off delinquent accounts, on the clear understanding that the lock-off policy of the Company be at all times subject to the Board's approval.

Coincident with ICG's application the Board considered an application by Simplot Chemical Company for an order approving cost-base rates for Transportation Service (T-Service), which would result, in their estimations, in a reduction from the existing 23 cents to 10 cents per Mcf. In the absence of significant relief and in its desire to remain competitive Simplot would be compelled to consider applying for approval to bypass the ICG system and builds its own pipeline from the TCPL system to their plant.

The Board, in Order No. 143/89 dated August 8, 1989 determined that ICG's proposed rate of 15 cents per Mcf for T-Service was just and reasonable, and consequently denied Simplot's application.

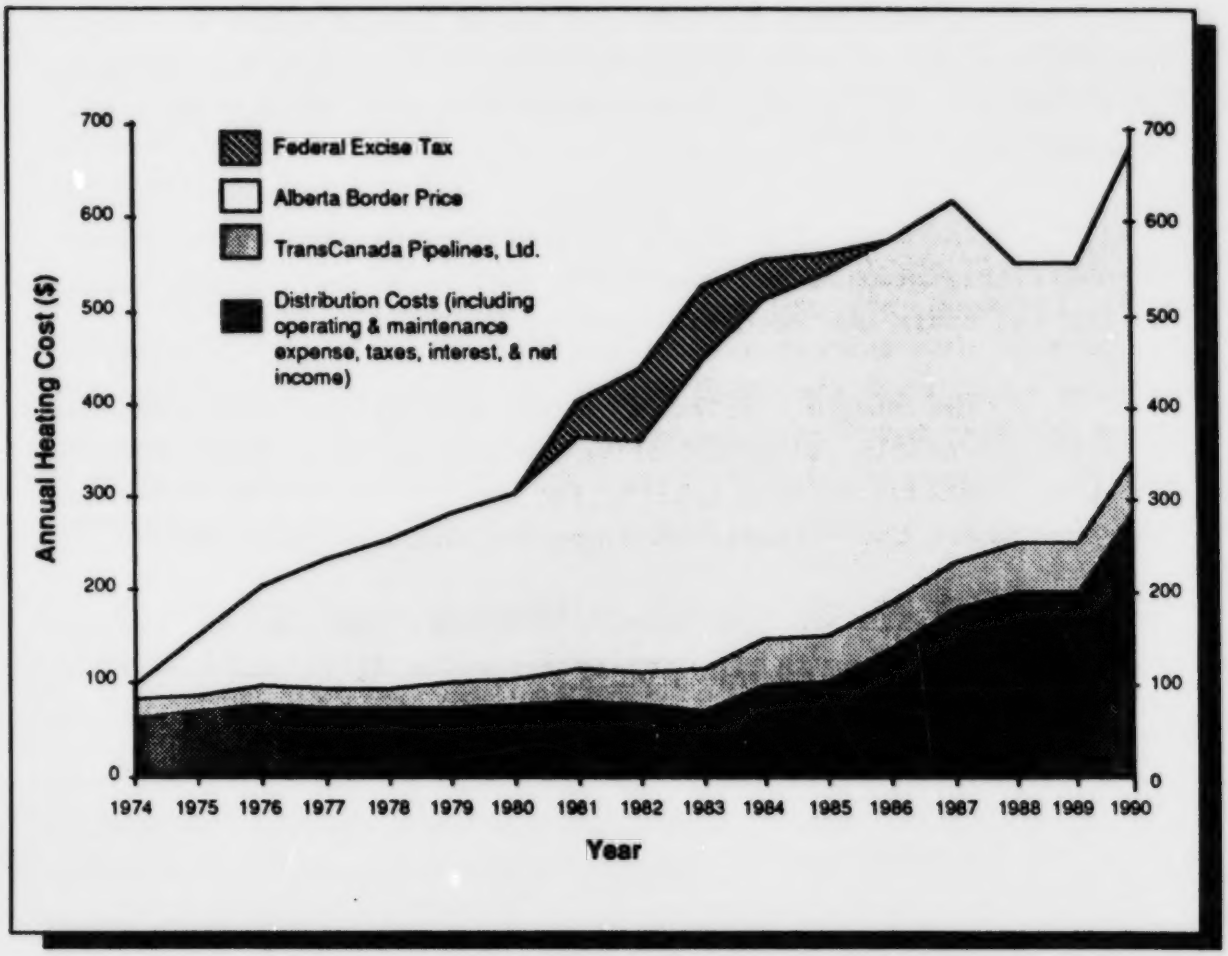
On February 2, 1989 the Board issued Order No. 20/89 authorizing the issuance of equity shares with a fair market value of $1,000,000 by ICG Utilities (Manitoba) Ltd. to ICG Utilities (Canada) Ltd.

In 1989 the Board issued Orders approving Direct Purchase Arrangements between those customers leaving the supply of ICG and their own specific suppliers.

The Company filed a joint application with GWG for interim refundable rates effective January 1, 1990 dated October 27, 1989. Details of this application and the Board's decision can be found under the "Greater Winnipeg Gas Company" heading.

Details of the annual heating cost of an average residential customer in the Company's various divisions and of the historical rates of return earned by the Company are shown in Figures 4(a), 4(b), 4(c) and 5 respectively.

FIGURE 4(a)



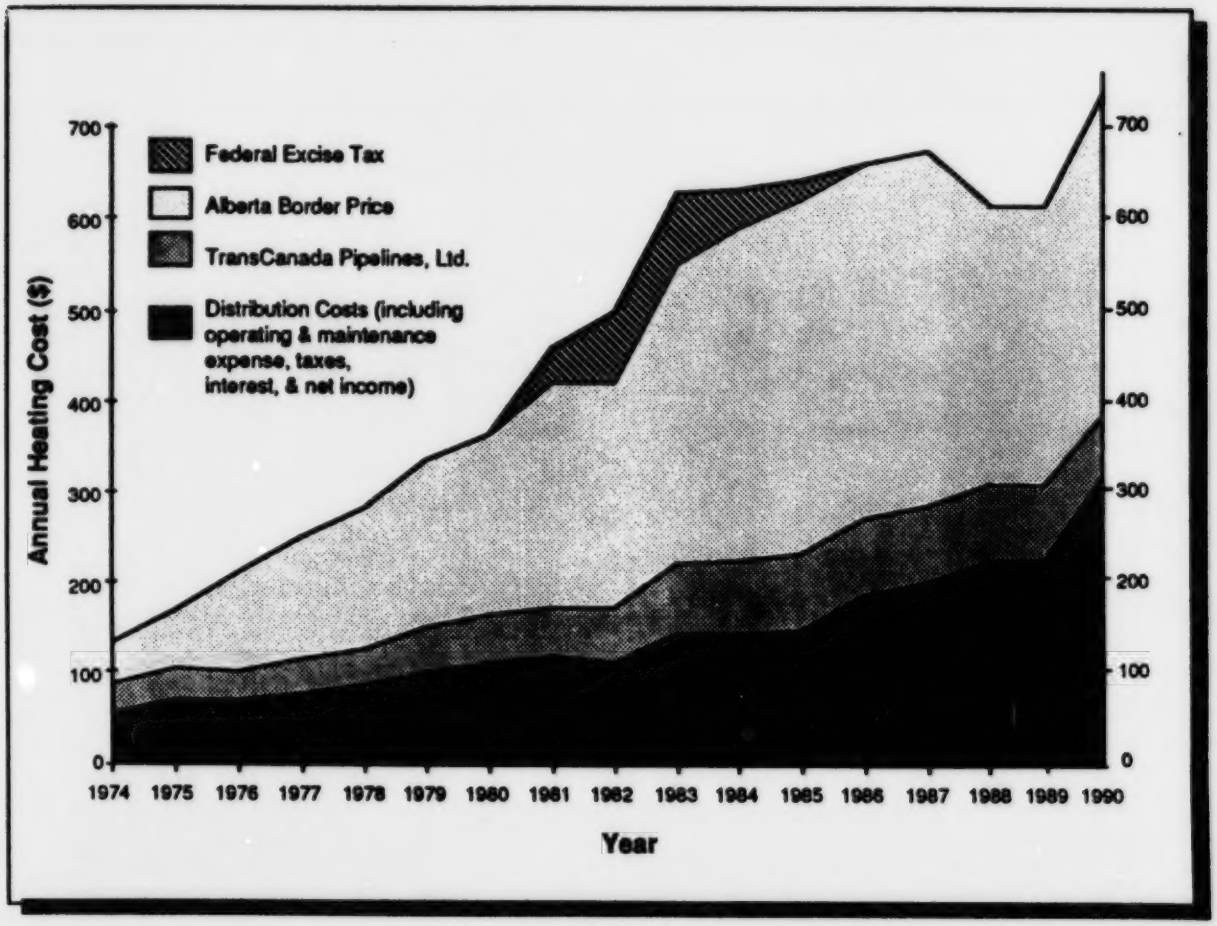
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Brandon Division

(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 130 mcf/year

FIGURE 4(b)



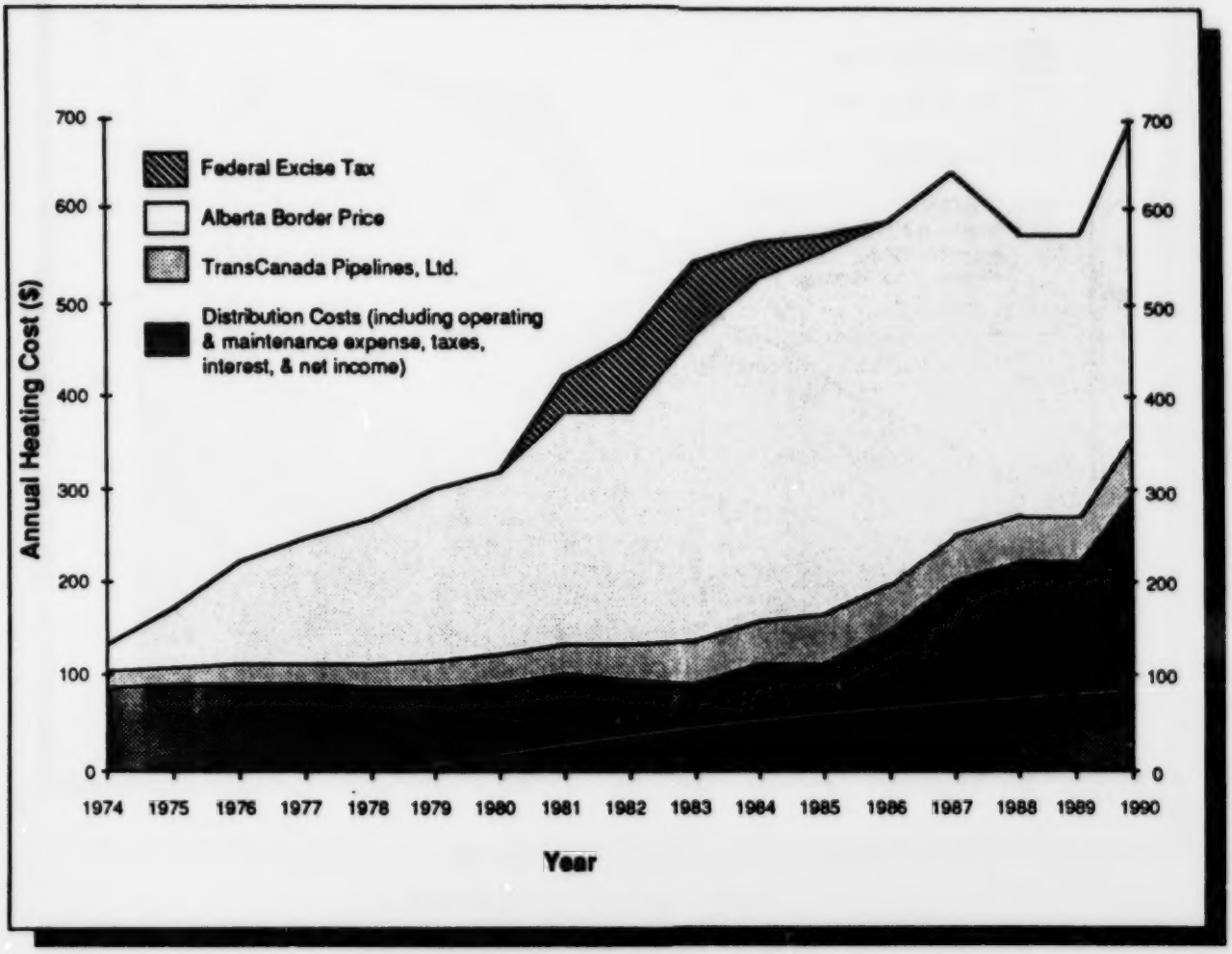
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
ICGUL Division

(Includes communities of Binscarth, Dauphin, Gilbert Plains, Grandview, Grunthal, Hamiota, Inglis, MacGregor, Miniota, Minnedosa, Mitchell, Neepawa, New Bothwell, Niverville, Otterburne, Portage la Prairie, Rivers, Roblin, Russell, Ste. Anne, Steinbach, St. Claude, St. Lazare, St. Pierre, and Virden)

Based on Usage of 130 mcf/year

FIGURE 4(c)



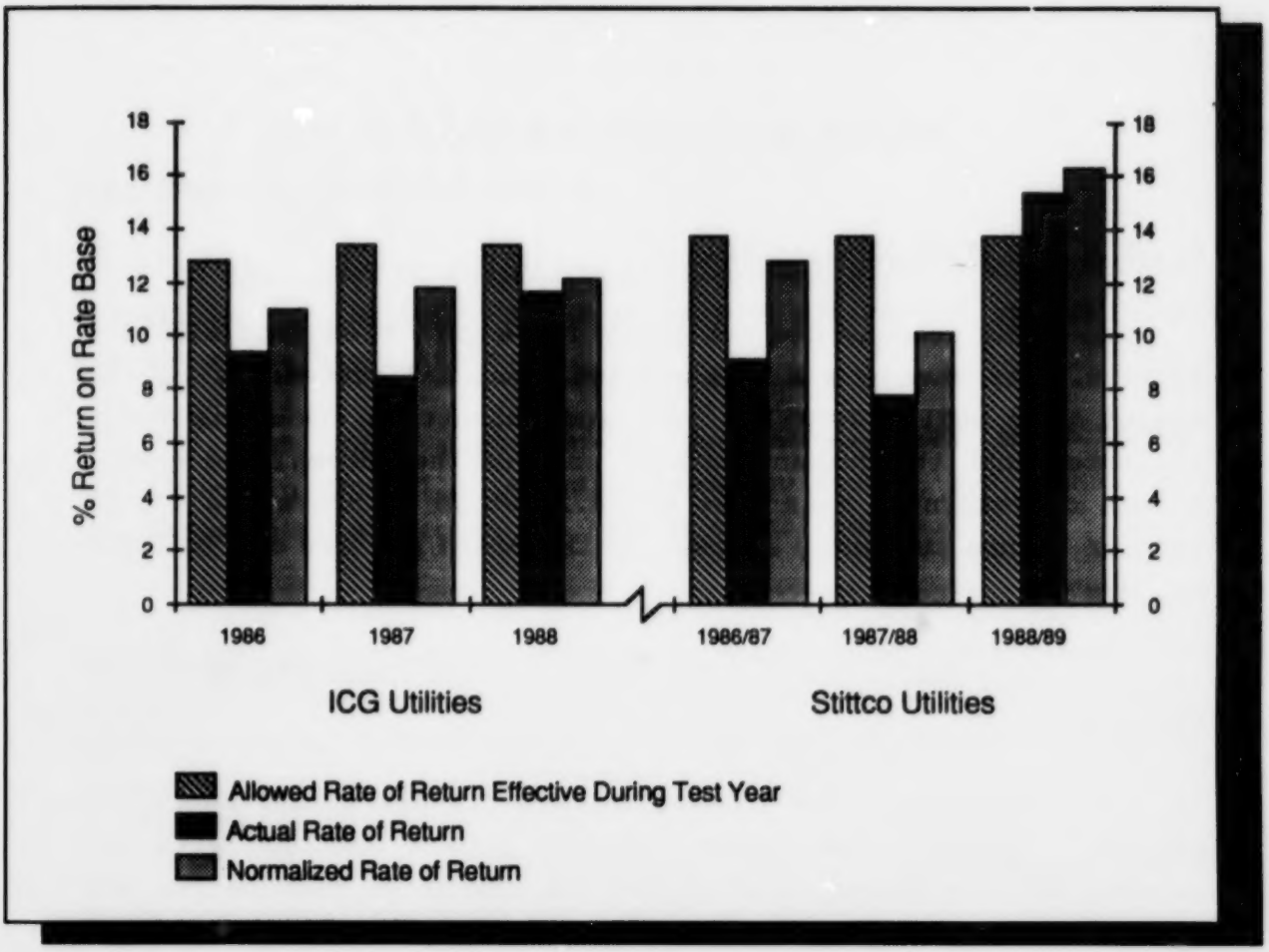
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Carberry/Southeast Division

(Includes communities of Altona, Carberry, Carman, Dominion City, Elm Creek, Emerson, Letellier, Morden, Morris, Plum Coulee, St. Jean, St. Joseph, and Winkler)

Based on Usage of 130 mcf/year

FIGURE 5



RATE OF RETURN ON RATE BASE
for
ICG Utilities (Manitoba) Ltd.
and
Stittco Utilities Man. Ltd.

NOTE: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment.

PROPANE GAS DISTRIBUTION UTILITIES

STITTCO UTILITIES (MAN.) LTD.

The Company did not apply for a rate base determination in 1989. The Company did file audited financial statements for the fiscal year ending July 31, 1989 and supporting documents which indicated that the Company earned, on a weather normalized basis, a rate of return on rate base of 16.2% which is above the 13.75% rate of return currently allowed by the Board and set out in Order No. 7/87.

The Board is currently reviewing the Company's operating results.

Each year, the Company tenders for its annual supply of propane. In 1989 the Company entered into a contract with its parent, Stittco Energy Limited for the supply of propane for one year commencing October 1, 1989.

MHRC OWNED DISTRIBUTION SYSTEM

Pursuant to The Gas Pipe Line Act the Board monitors the operations of the MHRC owned propane distribution system with respect to safety matters.

The MHRC distribution system services MHRC owned facilities in Churchill including some row houses, apartments and the large hospital/recreation centre/school complex.

In this regard the Board reviews the operating and maintenance procedures and records to ensure that, with respect to the pipeline system particularly, MHRC or its designate or operator conducts the work in accordance with the CSA Standards adopted in Manitoba.

This particular function has been performed by the Board since the installation of the System in 1975.

THE GAS PIPE LINE ACT

Pursuant to the provisions of The Gas Pipe Line Act, the Board authorizes the construction of natural gas and propane pipelines and also, monitors safety matters related to the operations of such pipelines.

The Board, in 1989, established a Safety Sub-Committee to review such matters. The activities of ICG Utilities (Manitoba) Ltd., Stittco Utilities (Man.) Ltd. and MHRC fall under these provisions.

THE MANITOBA TELEPHONE SYSTEM

During 1989 the Board issued 44 Orders relating to matters such as improvement of service and specific adjustments in the General Tariff of The Manitoba Telephone System (the "System").

Matters dealt with by the Board include the following:

1. Tier Rates

Board Order No. 106/88 dated June 28, 1988 approved the tier rating concept for select new business communications systems equipment. The concept provides a generic costing procedure for three rate components: Tier A, recovers the cost of capital over the contract length (up to seven years) chosen by the customer; Tier B, recovers the maintenance and administrative costs on an annual basis, (subject to change); and Tier C, recovers installation and service costs as a single payment or over a 12 month period. The Board approved specific contribution levels for each tier rate.

In the past year, the Board approved seven applications for tier rates covering Mitel, Meridian and Norstar business communication equipment. In December 1989 the System re-applied for an Interim Ex Parte Order for approval of revised Tier Rates (Schedule Two) for selected business communications products that will reflect current cost and market conditions. While the contribution percentages, which are based on costs, were maintained, because of the rate changes the overall revenue contribution is changed.

2. Centrex Service

The Board in Order No. 150/89 dated September 7, 1989 approved the restructuring of Centrex rates.

Centrex service is a central office based, multi-line Business Communication Service (BCS) similar to Private Branch Exchange (PBX) service, but with inward dialing, station number identification and a number of other calling features. Centrex revenues represent about 16% of the System's total multi-line business, trunk and Centrex service revenues.

The new rate structure provides an incentive for customers to contract for this service and establishes a more effective rate structure based on line size. The rates for different line size classes generally reflect the BCS/PBX tariffs where large line sizes have lower costs per line. The higher cost for the smallest line size is due to the greater set-up cost for Centrex service. The new rate structure reduces the contribution level above the cost of service to 15.7% from 21.8%.

This service is for large business customers with a need for integrated communication systems. For the System, long-term contracts improve operating efficiencies and financial stability.

3. 1989 and 1990 General Tariff Rate Increases

The System, in a letter dated October 3, 1988 applied to the Board for General Tariff Rate increases effective April 1, 1989 and April 1, 1990. The Board held public hearings on this application in Winnipeg, February 20 - 25, 1989 with three days of public meetings in Brandon, Arborg and The Pas.

The application stated that under current rates, effective since June, 1987 the System's net revenue of $11.9 million in 1988 would fall to $600,000 in 1989 and be a loss of $13.6 million in 1990. Consequently the System applied for new rates which will generate $14.4 million for the System in 1989 and $28.3 million for 1990.

The intent of the application was to ensure that the System met its financial requirements, including a reduction in its debt.

As part of the application the System introduced its Service For The Future Program which included extensive modernization, provisioning of Individual Line Service and a reduction of intra-toll calling areas. Part of the Program was called Rural Service Improvement Program.

The Board in Order No. 41/89 dated March 31, 1989 approved the following rate increases:

	April 1, 1989 Monthly Rate Increases	April 1, 1990 Monthly Rate Increases
Residence		
Winnipeg	$0.45	$0.55
All other areas	$0.30	$0.40
Service Improvement Assessment	$1.00	--
Business		
Winnipeg	$1.20	$1.45
All other areas	$0.60	$0.75
Service Improvement Assessment:		
Single and Multi-party line	$2.50	--
Multi-line Service (per trunk)	$4.00	--
Centrex Customers	$0.80	--

	Other Adjustments	
Service Charges	+10%	+10%
Local Private Lines (Winnipeg only)	+ 5%	+ 5%
Inter-Provincial Message Toll (calls to outside Manitoba, January 1, 1990)	--	-14%
Intra-Provincial Message Toll (calls within Manitoba)	+ 5%	+ 5%

These rate increases were to allow the System to pursue its financial goals of reducing the debt ratio by 1% per year, full funding of the pension liabilities by the year 2001 and increasing its debt coverage to within a range of 1.25 to 1.30.

The forecasted net revenue gain as a result of the Board's decision is approximately $16.8 million for 1989 and $7.9 million in 1990.

The System's construction program for the next three years has average capital expenditures of $201 million of which about 42% has been allocated to improving services to rural subscribers.

The Board approved the Rural Service Improvement Program that included the following:

(i) Conversion of 46,600 multi-party line subscribers to individual line service.

(ii) Reduction of toll-free calling areas from 160 to 60, commencing in 1990.

(iii) Introduction of Extended Urban Service and Teleplus Manitoba, two intra-provincial message toll discount plans.

The Board's approval of the Rural Service Improvement Program excluded the Community Calling Service (CCS) charges. The CCS charge ranged from $0.25 - $2.25 per month for residential subscribers. This CCS program will amalgamate the smallest exchanges (in Rate Groups 1 - 3) into larger Community Calling Areas (CCA), where most calls from smaller exchanges are made to exchanges in Rate Group 4 or greater and are within 75 miles.

The Board approved the CCS concept in principle and stated it expects the System to review the following matters by no later than the next general rate hearing:

- acceleration of the increase in rural toll-free calling areas in the Province;

- implementation of toll-free adjacent exchange concept;

- implementation of individual subscribers optional point-to-point flat rate service between communities;

- review alternative methods of generating revenue;

- re-examine toll calling patterns to ensure the community of interest is reflected by the majority of subscribers; and

- re-examine those exchanges in which the number of seasonal subscribers effects the CCA subscribers count, disadvantaging full-time subscribers.

4. Cost Awards

The Board dealt with six (6) applications for costs by Intervenors in 1989. Four applications were allowed for a total of $13,567.84 and two were denied.

5. Long-Distance Inter-Provincial Toll Reductions

On January 1, 1989 Inter-Provincial and Canada-U.S. toll rates were reduced by 8.2% as set out in Order No. 146/88, dated November 25, 1988.

In the 1989 General Rate Hearing referred to under Item 3, the System applied for a 14% reduction in Inter-Provincial message tolls as of January 1, 1990. These reductions were subsequently approved in Order No. 200/89 dated December 29 1989.

It was clear from the evidence that the System's intent is to reduce inter-toll rates to maintain comparability with other telcos to avoid a re-direction of toll traffic and to reduce its current competitive vulnerability. The Board accepted that these risks are significant and would, if not corrected, result in further revenue losses to the System.

In an application currently before the Board for its Community Calling Plus Program (discussed hereunder), Manitoba Telephone System applied for a further reduction in its long-distance message toll rates of 16.2%, effective October 1, 1990.

6. Community Calling Plus Program Application

In response to the Board's Order No. 41/89, the System, by letters dated October 31, November 15 and December 13, 1989, filed an application with the Board for approval of:

(i) The Community Calling Plus (CCP) and Urban Unlimited Programs and related tariffs;

(ii) Reduction in Inter-Provincial message tolls and Canada-U.S. rates effective October 1, 1990; and

(iii) Confirmation of numerous Interim Ex Parte Orders.

This application is the System's response to the Board's Order that asked the System to re-examine its Community Calling Service Plan and associated charges, referred to earlier.

The System proposed an expansion of the former program to be known as "Community Calling Plus", that will provide the following:

(i) As originally proposed, two-way toll-free calling within each Community Calling Area.

(ii) The added feature is each exchange will have two-way toll-free calling to all its adjacent exchanges. The conditions for adjacency are that the exchanges be within a 75 mile radius, that more than half the customers make at least one toll call per month to the called exchange and that Winnipeg and Brandon are excluded.

The System also proposed its "Urban Unlimited" program for those exchanges adjacent to Winnipeg and Brandon. The features of this program are:

(i) Optional flat-rated service for calling to Winnipeg and Brandon.

(ii) Subscribers will pay a monthly premium rate, the basic rate and an initial service charge for calling Winnipeg and Brandon.

(iii) Urban Unlimited will be available to exchanges that have both Community Calling Plus and Individual Line Service conversion. Consequently this service will not be available to some exchanges until 1994.

(iv) Extended Urban Service will continue to be offered in exchanges adjacent to Winnipeg and and Brandon as an option to those subscribers who do not select Urban Unlimited, but who wish to receive some discount on calls to urban centres.

The estimated capital cost of Community Calling Plus and Urban Unlimited is $19.5 million and $13.6 million respectively. The System stated that approximately 60% of the cost of these programs will be covered by rates charged to customers while the remaining 40% will be borne by the general rate base. Of the System's 238 exchanges 233 would receive benefits from these two programs. The System intended its proposed programs will provide expanded toll-free calling access to over 99% of Manitoba Telephone System customers.

The Board held its public hearing on this application in Winnipeg on December 19 - 21 with a public meeting in Brandon on December 22, 1989. As of December 31, 1989, the Board's decision remained outstanding.

MANITOBA HYDRO

On January 17, 1989 The Crown Corporations Public Review and Accountability and Consequential Amendments Act (the Crown Act) was proclaimed, which gave the Board the power to review and approve rates charged by Manitoba Hydro.

In anticipation of this, Hydro filed with the Board an application dated December 5, 1988 for approval of revised rates effective April 1, 1989. In the application, Hydro requested approval for an overall increase in revenues of $31.4 million, or an average of 6% increase in rates. The residential class would increase an average of 6.5%, General Service and street lighting by 5.7%.

The Board convened public hearings in Winnipeg commencing March 13, 1989, and in Thompson, Morden and Dauphin on March 20, 21, and 23, 1989 respectively to examine Hydro's application.

Hydro advanced two principal objectives, which were:

1. In the long term, to move the Corporation gradually to a more reasonable level of reserves to achieve an improvement in the Corporation's debt-equity and interest coverage ratios.

2. In the short-term, to achieve minimum reserves sufficient to provide a cushion against the effects of drought and to ensure rate stability.

As of March 31, 1989 Hydro's debt equity ratio stood at 98:02. Due to the significant drought experienced in 1987-89, the Corporation's reserves had been reduced to $180 million.

Hydro further proposed to commence recording the previously unfunded pension liability of $175.3 million over the next 15 year period commencing with $22 million in fiscal year 1989.

The Chairman of Hydro advised that the Corporation intended to request the Province to repeal The Manitoba Energy Foundation Act and the Energy Rate Stabilization Act.

The cost of service study conducted by the Corporation showed a revenue to cost coverage of 85% for residential, 127% general service and 133% for street lighting.

The Board in Order Nos. 42/89, 66/89 and 99/89 determined that the average rate increase be reduced 1% to 5%, representing an approved increase in revenue requirements of $26.1 million. The result of this 1% reduction was that the Corporation would achieve its short-term goal one year later than projected, all else being equal.

Noting that the revenue to cost coverage for customer classes was outside the "zone of reasonableness", and that the proposed rate allocations exacerbated the relationship, the Board determined that the net reduction in revenue requirement of $5.3 million be applied primarily to adjust the revenue to cost ratios. The result was a net average rate increase of 5.8% for the residential class, 5.0% for general service, and no increase for street lighting service.

In Order No. 99/89 the Board also issued a series recommendations as listed below:

1. The Board of Manitoba Hydro develop appropriate long term financial objectives including an appropriate debt-equity ratio target and a plan for implementation. This information should be included in Hydro's next rate application.

2. Manitoba Hydro monitor its Exposure Management Program having regard to the concerns expressed by the Board and report to the Board in subsequent hearings.

3. The Board of Manitoba Hydro consider the need for including the potential impact of losses related to the self-insurance program in the target minimum reserves.

4. Manitoba Hydro provide a breakdown of wage and salary changes as a part of future minimum filing requirement as follows:

   - changes in wages and salaries related to staff complement;

   - changes in wages and salaries related to factors other than changes in staff complement;

   - forecasted staff levels for each of the departments for which budgets are prepared.

5. Manitoba Hydro justify, at future hearings, the appropriateness of major export sale agreements on the basis of contribution to domestic rates lower than would otherwise have existed in the absence of the export sale. Consideration should include the impact of capital expenditures on rates especially where decisions as to future generating capacity are influenced by the export sale agreements.

6. Hydro implement the following changes to cost of service:

   a) Hydro make improvements to its load research system with the objective of attaining adequate sampling of all customer class demands within a five-year period; and

   b) Hydro estimate, in consultation with Winnipeg Hydro, the share of distribution customer costs properly chargeable to Street Lighting, and to incorporate the estimate in its next Cost of Service study; and

   c) Hydro include profit or contribution to reserves as a cost in future cost of service studies; and

   d) Hydro determine an appropriate zone of reasonableness for revenue cost coverages of the rate classes.

7. Manitoba Hydro advise the Board as soon as possible when it will be in a position to present its long term capital plans and strategic alternatives for meeting load growth in the late 1990's pursuant to Board Order No. 6/89.

8. Future large capital projects be supported by a Least Cost Planning Study all through the decision making and approval process.

9. Manitoba Hydro file with the Board as soon as possible and by no later than the next rate hearing a procedure by which the interruptible rates of the Corporation may be addressed by the Board in a timely manner.

10. Manitoba Hydro present to the Board, for its review at the next general rate hearing or as soon thereafter as possible, the re-negotiated agreement between Manitoba Hydro and Winnipeg Hydro.

In response to a motion by Consumers' Association of Canada (Manitoba) and Manitoba Society of Seniors, the Board moved to state a case to the Manitoba Court of Appeal pursuant to Section 58.1 of The Public Utilities Board Act on the question of whether the Board is empowered under Part IV of The Crown Act to direct changes in Hydro's capital project plans. The Public Utilities Board and Manitoba Hydro both stated that the Board did not have such powers while Consumers' Association of Canada (Manitoba) and Manitoba Society of Seniors agreed that the Board did. In its decision issued on October 3, 1989 the Court of Appeal determined that the Board had no such powers. Notwithstanding that ruling, Hydro volunteered to place before the Board for public review the Corporation's proposed major capital plans.

By letters dated November 2 and November 8, 1989 Hydro applied for an interim ex parte order authorizing a change in rates effective July 1, 1989 and July 1, 1990 to all customers in isolated northern communities serviced by diesel-generated power and known as "Diesel Full-Cost Customers". There are 384 such customers, most of whom are federal and provincial government institutions. In all cases the new rates reflected reductions with an average overall reduction of 15.7%. In Order No. 186/89 dated December 29, 1989 the Board approved the application subject to confirmation in early 1990.

By letter dated September 14, 1989, Hydro applied to the Board for approval of revised rates effective April 1, 1990 and for confirmation of Ex Parte Order No. 186/89.

The application for a revenue increase of $25.7 million, an average of 4.5% increase in rates, will be heard by the Board in February, 1990.

MANITOBA PUBLIC INSURANCE CORPORATION

BACKGROUND

The Manitoba Public Insurance Corporation (MPIC) filed its first application with the Board for interim approval of new compulsory automobile insurance rates effective March 1, 1989 and drivers' premiums effective February 1, 1989. Pursuant to Order-in-Council No. 1389 and later under The Crown Corporations Public Review and Accountability and Consequential Amendments Act, the Board conducted public hearings in December 1988 regarding that application. The Board determined that MPIC had proven a prima facia case as to both financial need and urgency and therefore approved the application on an interim basis in Interim Order No. 153/88 dated December 23, 1988.

However, recognizing that more time was required by the Board and Intervenors to review the Corporation's rate making policies and procedures, the Board requested that the Corporation provide written evidence relating thereto by no later than April 15, 1989 which evidence would be subject of public hearings as soon as possible thereafter.

1. ISSUES RELATING TO 1989 RATE APPLICATION

The Corporation applied to the Board on April 14, 1989 pursuant to The Crown Corporations Act for:

a) Final approval of all changes to compulsory Drivers' Licence and vehicle premiums, insurance coverages, insurance use categories, merit discounts, time-payments and premium refunds approved on an interim basis in Order No. 153/88.

b) Review of and comment on:

1) The current nature of the Corporation's present rate making policies.
2) Action which the Corporation is taking to establish a new rating system which would go towards satisfying the recommendation for actuarial based rates recommended in the Autopac Review Commission (ARC) report.
3) Proposed time-tables for the review and approval of the 1990 and subsequent years rates.
4) Planned programs and strategies from the Corporation's review of the ARC report.

The Board held public hearings of this application in Winnipeg from May 29 - 31, 1989. The Board's decision was set out in Order No. 125/89 dated July 4, 1989. The following are highlights of that decision:

Regulatory Process:

The Board noted that the regulatory process for automobile insurance in Manitoba is new and will be an ongoing educational process for the Board, the Corporation, the Intervenors and the general public. The objective is for the Board to be satisfied that the proposed insurance rates and coverages are just, fair and reasonable. Insurance is a matter of cross-subsidization whereby the cost of insurance is distributed equally among a class

of motorists representing similar risks, notwithstanding the individual motorists own risk. The degree of subsidization is a matter that will continue to be examined by the Board at future hearings.

Jurisdiction:

The Manitoba Public Insurance Corporation offers compulsory basic automobile insurance as well as optional extension insurance covering increased third-party liability insurance, reduced deductibles, underinsured motorist, excess value and special risk extension coverages. This extension insurance coverage, while optional, is a competitive service offering and as such, a matter which the Corporation considers proprietary. The Crown Corporations Act gives the Board specific jurisdiction over the Corporation's rates for compulsory basic insurance. Surpluses/losses generated from basic insurance together with surpluses/losses generated from the optional extension insurance are combined and flow to the Rate Stabilization Reserve (RSR) which is intended to act as a cushion for those years which experience unforeseen losses so as to provide rate stability. It is the Board's opinion that it must consider the level of the RSR as it impacts the Corporation's revenue requirement and accordingly, the net income generated by extension insurance in determining the adequacy of the RSR and compulsory insurance premiums.

The Board stated that in budgeting for the RSR contribution, the allocation of costs between basic and extension insurance must be properly portrayed.

Claims Forecasting:

The Board noted the fluctuation in claims experience between actual and forecasted claims for 1988 as well as the revised projections for 1989 compared with the claims forecast for

that year provided earlier. Despite the substantial dollar change, the Corporation indicated the percentage fluctuation was only two to three percent, or within an acceptable range.

The Board requested that the Corporation's forecasting methods be re-examined as its accuracy will be particularly important when the Corporation's applications, in the future, are made to the Board earlier in the insurance year, when less data would be available upon which to base the forecast.

Adequacy of Basic Insurance Program:

The Board required the Corporation to address the adequacy of its basic insurance program as part of its application for the 1990 insurance year. This was raised when the Corporation pointed out that 77% of Manitoba's drivers purchased extension insurance coverage from the Corporation. The percentage of drivers buying extension insurance may be higher when one considers that motorists may be buying optional extension insurance elsewhere. When such a large percentage of drivers do not consider the compulsory basic insurance level adequate, the Board identified a concern that drivers without such extended coverage may subject themselves and the rest of the public to excessive risks.

Rate Stabilization Reserve (RSR):

The Corporation recommended and the Board accepted a level of 15% of premiums written to be adopted as a target for the Rate Stabilization Reserve which is in accord with ARC report's recommendations. The purpose of reserves is to provide rate stability in light of the inherent volatility of claims costs.

Rate Methodology:

This hearing was the first opportunity for the Board to examine the Corporation's rate setting methodology. The Corporation stated that its mandate "is to provide automobile (insurance) coverage at cost, ... premiums are driven primarily by cost claims". The Board stated:

> "The Corporation uses a "level-premium rating system" under which premiums do not vary dramatically among various classes of vehicles or drivers. This system makes insurance coverage reasonably affordable for most drivers. The Corporation's non-discriminatory rating system bases premiums, in part, on individual driving records. Discriminatory factors such as age, gender and marital status have not been used by the Corporation in determining premiums to be charged."

The claims costs are broken down by compulsory coverages for no-fault accident benefits; public liability and property damage for third-party liability coverage including bodily injury; and collision and comprehensive coverages for damage to one's own vehicle.

The basic Autopac premium increase was 2.5% for the 1989 insurance year. This increase was derived by taking into account forecast claims cost and a number of changes in insurance use and coverages. The change in vehicle insurance premiums ranged from -2% to +10%.

Vehicle Insurance Premiums:

The Corporation's rating methodology for vehicles is based on three factors:

1) Rating Territory -

The Province is separated into four territories in which the vehicles are assigned based on the insured's place of residence. This classification accounts for differences in traffic density, repair costs and other factors which contribute to the overall loss experience.

2) Insurance Use -

The Corporation has 95 insurance use categories.

3) Rating Groups -

The Corporation uses rating groups to classify vehicles according to their price, age and size.

To determine the annual rate change, the Corporation uses loss ratios for each insurance use by territory class as the guide. In this manner there are 380 combinations of rate classifications for which loss ratios are considered.

The Board examined the application of loss ratios within a "reasonable zone" or range of ratios between 80 to 90 percent. The Board noted several rating groups were outside the "reasonable zone" which identifies them as paying either more or less than the risk they represent.

In the 1990 insurance year there was an additional premium increase for those classes with a high loss ratio, to improve poor claims experience. While the Board is in agreement that rates increase should be within the limits of rate shock i.e. plus or minus 10%, the Board noted that it may be difficult for the

Corporation to achieve movement toward a true experience base rating system if the average premium increase when taking into account inflation, is within this limit.

The Board noted that the Corporation does not compile claims experience for the various rating groups and that there were no studies or data to support the current method of assigning vehicles to rating groups. Consequently the Board required the Corporation to file options concerning its methods for defining rate groups and the possible use of this classification.

Driver Insurance Premiums:

The Board accepted the Corporation's position that the basic driver's premium remain at $35.00. Drivers who qualify for a merit discount receive a $5.00 deduction per merit up to a maximum of $25.00. Correspondingly, demerit point premium charges range from $150.00 to $999.00 depending on the accumulated number of demerits.

The Board also accepted the Corporation's use of an annual surcharge system based on the owners' driving record of at-fault accidents during a 36 month period. The principle is that those who cause accidents, especially those who do so repeatedly, should be required to pay significantly higher premiums on their driver's licence.

In this matter, the Board required the Corporation to re-examine the deterrent aspects of the surcharge system including a longer surcharge period, the risks of causing insurance to be prohibitive to purchase, and equal treatment for similar at-fault occurrences.

The Board noted that until 1988, the driver insurance premium revenue approximated the cost of no-fault benefits, about 8% of total claims. Drivers' licence premium revenue is part of general revenues but a specific use is being considered by the Corporation. The Board noted that if there is some link between driver insurance premiums charged and coverage provided, the Corporation is asked to demonstrate clearly the rationale behind such a linkage.

Vehicle Insurance Premium Modifications:

(a) School Use Premiums

The Corporation proposed a school use category for vehicles currently being driven to and from school. Recognizing that drivers in the school use category represented similar risks as the all-purpose use category, the Corporation proposed the establishment of a special category that would pay premiums based on their own risk. The Board found, that the introduction of the special class may result in insurance premiums being set higher than the all-purpose use class because of the special risks that may be attributed to the student driver. Accordingly, the Board ordered that the Corporation to eliminate this specific insurance use category as soon as this class is moved, within the annual limits of rate shock, into the all-purpose category.

(b) Commuters

The Board noted that the ARC report recommended an increase in rates for vehicles being driven to and from school or work in a territory with higher rates than in the territory of residence because such use represented similar risks to the Corporation as though such drivers lived in the higher territory.

The Board agreed with this recommendation and directed the Corporation to change its method of determining insurance rates for commuters.

(c) Level of Deductible

In 1988 the Corporation raised the level of the basic deductibles to $350.00 from $200.00 to control rising collision claim costs and the number of claims. The Corporation stated that savings were achieved and that it proposed future increases to be in increments of $50.00. The Board noted that the public would be better served if such increases in the level of deductibles were, in the future, smaller and if necessary, more frequent.

(d) Cyclical Renewals

The benefits of cyclical renewals were identified in the ARC report. The Corporation stated that it was in favour of such a system, preferably on an anniversary date, but implementation was not expected for another three years. The Board directed the Corporation to file an implementation plan for both driver and vehicle insurance by March 1992.

(e) Time-payment Plan

At present there is a $10.00 fee charged for use of the time-payment plan. The Board required the Corporation to file a detailed assessment of the time-payment plan to demonstrate that fees charged do in fact offset the costs and loss investment income.

(f) Mandatory Inspections

The Corporation's procedure is random inspections of about 10% of post-repaired vehicles regardless of the severity of damage. The Board stated its concern about the road worthiness of written-off vehicles that had been repaired and driven without inspection. It ordered the Corporation to provide details of a compulsory inspection service.

2. ISSUES RELATING TO 1990 RATE APPLICATION

The Corporation applied to the Board on September 7, 1989 for a final Order approving changes to its Basic Autopac Program for the 1990 insurance year. The application includes the following:

(a) Rate adjustments:

(i) a 3% across-the-board increase (minimum $1.00) for all vehicles;

(ii) additional increase up to 7% for selected vehicle groups with poor average loss ratios;

(iii) special assessments from 1 - 7% to equalize premiums for trucks over 16330 kg and PSV buses in certain rating groups.

(b) establish a new territory for Commuters in 12 vehicle use categories.

(c) establish Courtesy Car rates for Territories 2, 3 and 4.

(d) changes to the Corporation's Fleet Program to exclude only no-fault accident benefit premium coverages and vehicles leased to other parties.

(e) increase in the No-Fault Accident Benefits:

(i) Total weekly Disability Payments between $175.00 and $350.00, a 16.7% increase; and

(ii) Partial Disability Weekly Payments to $75.00 per week for a maximum of 104 weeks.

The Board held public hearings on this application in Winnipeg on November 13 - 19, 1989. The following are the highlights of the Board's decision in this matter in Order No. 192/89:

Revenues:

The Corporation stated that its insurance operation would result in a net loss of $8.1 million without any increase in premiums. The proposed changes in disability benefits and associated costs in this application would result in an additional cost of $3.7 million. The proposed revenue increase to recover these expenses, including investment income was $11.4 million. (The budgeted net loss is $0.4 million in compulsory basic insurance).

The Board in examining the 1990 rate application, once again sought from the Corporation its estimate of the RSR contribution for the 1990/91 insurance year. At the outset the Corporation would not provide this estimate as, in its opinion, to provide the expected profit levels in the optional extension area would negatively impact on its profitability level. This MPIC view is simply that a public release of this profit figure would be of competitive advantage to other Companies selling extension

insurance. The Board stated that without this information it could not make a decision with respect to the adequacy of the basic rates. For example, if the profits from optional extension insurance were forecast at zero then the Board would need to consider whether the basic insurance rates are sufficient if the Corporation was at a state that required a build-up in reserves. Accordingly, the Corporation left the Board in the untenable position of either imputing a profit level based on the previous performance or denying the Corporation a decision until the number was provided.

The Corporation informed the Board by letter subsequent to the hearing, that the extension insurance RSR contribution was projected to be $10.7 million, $4.5 million less than the previous year. The result of this and a $0.4 million net loss from basic insurance is a total contribution to reserves of $10.3 million.

With this information the Board made its decision that is outlined below. It further stated that to avoid a similar occurrence when the 1991 rate application comes before the Board, the Board would state a case to the Court of Appeal requesting clarification. The Board argues that it has the necessary jurisdiction to know the forecasted profit level from the optional extension insurance to set rates for the compulsory insurance coverage.

Rate Stabilization Reserve:

Evidence showed that based on the forecast 1990 premiums of $305 million, the RSR target equal to 15% of premiums written is $45.8 million, compared with actual reserve of $27.5 million or 60% of the goal.

Cost Allocation Between Basic and Extension Insurance Divisions:

The Board addressed another concern about the allocation of costs between the Corporation's Basic and Extension Divisions. It required the Corporation to provide historical data and comparisons with the industry's allocation practices.

Administrative Expenses:

The Board examined the significant increase in this expense, of $7.7 million, almost 46% from March 1989 to February 1990. A large part of this cost is related to the improvement of the rate methodology and services as recommended in the ARC report. The Board expressed a concern about creating permanent staff positions to deal with shorter term commitments most of which involve rate methodology and whether the Corporation has thoroughly examined the availability of programs elsewhere that may suit the Corporation's needs at less cost.

Rate Methodology:

The Board noted the Corporation's use of the across-the-board type of rate increase to account for inflationary cost increases among the entire vehicle population. In addition there was an assessment of experienced based rate increases against vehicle groups with an unfavourable loss experience that caused higher costs to the Corporation. The Board accepted the Corporation's procedure of combining across-the-board and experience based rate increases as a fair and reasonable plan for the 1990/91 insurance year premiums. However the Board again pointed out that with inflation, this method of specific increases to correct some insurance use groups may not adequately address the obvious inequities and be within the range of reasonableness.

Other Matters:

The Board continued to examine other issues of concern to it; namely, issues relating to mandatory inspection for written-off vehicles, adequacy of the basic insurance level and rating methodology. These will be dealt with in a further Order of the Board.

THE MUNICIPAL ACT

WATER AND SEWER UTILITIES

The Board issued a total of 98 Board Orders respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 44 applications requesting approval and authorization for method of recovery pertaining to operating deficits for the year ending December 31, 1988. Orders were issued authorizing all 44 applications.

(ii) 35 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist with rate design and to ensure that sufficient revenue would be provided to cover normally anticipated expenses plus an adequate contingency allowance. Applications were handled by public hearing or returnable date notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 19 applications for establishment of or amendment to utility reserve funds were processed and Orders issued to authorize the creation of the reserve funds.

The Board authorized 31 requests by municipalities to make expenditures from their utility reserve funds for miscellaneous purposes relating to the operations of the utilities.

The Board's staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board's staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases, or for the establishment of utility rates.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board issued 2 Orders respecting appeals of decisions of The Highway Traffic Board.

The applications dealt with appeals against decisions of The Highway Traffic Board to deny applications for permits to construct access driveways onto Limited Access Highways.

One appeal was allowed and one was dismissed.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances, hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1989, the Board issued 25 renewal licences. Eighteen applications for revisions in fees for services, as well as three applications for sales contract revision and one for Authorized Trustee agreement revision, were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operators of 10 cemeteries, 6 columbariums, 3 mausoleums and 8 crematories, and 1 initial crematory licence. Forty-one licences and 7 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 6 applications for revisions in schedules of fees for spaces, materials and services were authorized.

The Board continued to monitor the maintenance and passing of accounts by the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act. During the year, the passing of accounts was completed for one cemetery.

REVENUE

The financial affairs of the Board are conducted through the Estimates of the Department of Cooperative, Consumer & Corporate Affairs. Accordingly, the expenses of the Board are paid out of the Consolidated Fund and to a large extent these expenses are recovered from the regulated industries.

For the fiscal year ending March 31, 1989 the Board's expenditures and revenues were as follows:

Expenditures	$1,089.743.47
Revenues	$ 977,095.17

Board Order No. 38/89 sets out the means by which the Board recovers its expenditures relating to proceedings before the Board. Board Order No.39/89 together with Order-in-Council 453/89 provide for the Board to recover fixed overheads including salaries from the major regulated industries including Manitoba Telephone System, Manitoba Public Insurance Corporation, Manitoba Hydro, natural gas and propane utilities.

Other revenues of the Board are derived from the licensing provisions of The Prearranged Funeral Services Act and The Cemeteries Act.